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ISSUE NO. 5

Is PRA/MPA still the best property funding system for the Agency?

RESPONSE

This problem was studied in some depth commencing in 1972. Alternatives to the PPA/PRA system of financial property accounting were examined. They were:

- a. Modified PPA/MPA
- b. Revolving Fund Concept
- c. Direct Funding

In reverse order, Direct Funding contemplated that operating components would be assigned budget responsibility for direct procurement requirements, while designated offices would be assigned budget responsibility for stock procurement, i.e., Communications Equipment - OC; Audio-visual Equipment - OTS; General Supplies - OL; etc.

Under the Revolving Fund concept, using components would budget for all property requirements. Existing inventories would be capitalized and all sales credited to such capitalized funds.

A third alternative was a Modified PPA/PRA which stipulated that PRA would only be utilized for stock issues with obligations for direct procurement recorded as such by the requisitioning office.

For quite some time, "Direct Funding" got quite a play (six years); however, in 1978, the DDA eliminated it as a viable alternative stating that such a system would cause increases in the DDA budget which were unacceptable.

From a systems point of view and were we to depart from our present FPA procedure, the capitalized Stock Fund concept is the only viable materiel management system worth considering. The basic reason for rejection in the past was the unacceptability of congressional oversight in the establishment of capitalized limits. Of course, this is no longer true.

One last comment. We must be mindful that any change in our FPA procedures would have profound effect on the present General Accounting System. Therefore, any contemplation of such departure could only be considered as a long-range program.

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Office of Logistics
Management and Control of the Property Procurement Allotment (PPA)

1. INTRODUCTION

This paper is informational only and is designed to provide a collective summary of the steps of development, management, and control of the Office of Logistics (OL) Property Procurement Allotment (PPA). An earlier publication written by OL, and entitled "Funding of Agency Property," deals with the general and basic principles of property funding. This paper supplements that publication by going into the details of OL responsibilities and methods of managing and controlling the PPA.

2. MATERIEL BUDGETING

a. Each operating component of the Agency is responsible for budget submission and justification of the total materiel requirements in support of its programs. OL does not program nor budget funds for property procurement except for those supplies and equipments needed to support OL as a using component. The role of OL is limited, for the most part, to the management and control of those funds allotted by the Office of Planning, Programming, and Budgeting (OPPB) for Agency-wide property procurement.

b. Upon receipt of their operating allowances at the beginning of each fiscal year, operating components estimate the types and value of materiel which they expect to requisition through OL and from its depots. Each component then requests OPPB to issue Property Requisitioning Authority (PRA) in that amount. The amount of PRA issued might or might not equate to the component's total materiel budget since most overseas stations locally procure many of their materiel requirements in which case those expenditures are handled as direct charges to funds and do not require PRA.

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c. Concurrently with the issuance of PRA to the operating components, OPPB allots an equal amount to OL in the form of PPA. This allotment is supported by a listing which shows the amount of funds contributed by each operating component and the distribution of that amount among the various materiel categories. The nine materiel categories are also represented in the Agency's budget subobject classifications within object classes 2600 (Supplies and Materials) and 3100 (Equipment).

d. Upon receipt of the PPA, OL simultaneously assumes a liability to honor all customer requisitions which have been approved and which have been certified as to the availability of PRA. This liability continues whether the materiel requested is available within the Agency supply system, or whether action is required to obtain it from other sources.

e. The PPA provides obligation authority for procurement from commercial or Government sources of:

(1) Items requisitioned which are not carried as stock in the Agency supply system (e.g., the earth satellite terminals procured on behalf of the Office of Communications). This type of action is identified as "direct procurement."

(2) Materiel to periodically replenish inventory levels of stock items which have been reduced as the result of issues to requisitioners. This type of action is identified as "stock procurement."

(3) In addition to the procurement of end items, the PPA is also used for the contract repair, modification, or fabrication of stock items when economy or practicality dictates.

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f. Although PRA is the primary source of funds for PPA, there are additional sources available to OPPB for this purpose. Among these are the proceeds derived from the sale of materiel to other U. S. Government agencies and foreign governments or instrumentalities (accommodation procurement), and proceeds from property disposal sales (e.g., motor vehicles). These funds become available to the appropriation for replacement of like or similar items. PPA funds can also be made available, without being immediately supported by PRA, when a new item is introduced into the supply system which will be budgeted for and requisitioned by operating components in the future (e.g., the new items introduced into the inventory system by Technical Services Division).

g. The funds in the PPA are made available from the Agency's appropriation and are subject to the limitations of that appropriation. Unlike the stock funds of the military establishment, PPA is not a revolving fund; therefore, unobligated balances at the end of a fiscal year cannot be carried over for use in the next fiscal year.

h. Obligations against the PPA are not identified as such in the "Past Year" column of the Agency's budget submission to the Office of Management and Budget (OMB) and to Congress. OPPB does, however, distribute the obligations among the various operating components, generally equating such distributions to the PRA encumbrances reported by those components. The obligation distributions constitute the budget year amounts against which the operating components estimate and justify materiel requirements in support of their programs for the current and budget years.

3. OL TECHNIQUES FOR MANAGEMENT AND CONTROL OF THE PPA

a. The first step in effective management of funds allotted for property procurement is to review available information regarding materiel requirements which must be met during the allotment year. OL has several sources of information on which it bases its anticipated financial requirements for materiel:

(1) Information provided by OPPB with the initial issue, or subsequent amendment, of the PPA. This information provides the dollar amounts of PRA approved for each operating component by materiel category.

(2) Past and current financial and materiel line item experience factors.

(3) Logistical annexes to project outlines.

(4) Monthly information provided by Office of Finance (OF) concerning encumbrances against PRA reported by each operating component.

(5) Procurement Plans resulting from a program initiated by the Executive Director-Comptroller in fiscal year 1973.

(6) Continuous informal contacts between OL components (e.g., Supply Division and Budget and Fiscal Branch) and operating components concerning the latter's current and future materiel plans, requirements, and encumbrances.

b. The second step is to determine the proper suballocation of PPA between the amount reserved for direct procurement requirements, and the amount to be suballocated to Chief, Supply Division (C/SD), for stock procurement. The role of OL differs between the two types of transactions. In the case of direct procurement,

it is one of reaction since OL has no direct control over timing, kinds of items, or quantities of items which are dictated by the operating components. On the other hand, the role of OL in stock procurement is one of action since it is the responsibility of OL to maintain an inventory of common-use and/or Agency-peculiar materiel. Consequently, OL can determine the procurement timing, kinds of items, and the quantities to be procured. Based upon obligation experience over the past three fiscal years, OPPB plans that during the current fiscal year 64 percent of the PPA will be obligated for direct procurement and 36 percent for stock procurement. While both portions are subject to strict financial management, the stock procurement portion carries the additional responsibility for careful materiel management.

c. Stock procurement funds are suballocated to C/SD for management and control and are redistributed to the following five elements having inventory management responsibilities:

(1) [] Supply Management Branch,
Supply Division, Office of Logistics, [] (SMB/SD/OL). [] is responsible
for the replenishment of stocks of administrative general use, and general use
items to support technically cognizant major end items, currently in the depot
inventory system; and for the introduction of new general items into the
inventory. The introduction of new technical end items is accomplished at the
request of the technical component concerned and funded out of the share of PPA
redistributed to that component.

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(2) [] Supply Management Branch,

Supply Division, Office of Logistics, [] SMB/SD/OL). [] is responsible 25X1

for item management and control, and replenishment, of ordnance, ~~and~~ airborne ~~and~~

related materiel. Actions are based upon information received from operating components concerning major projects, Agency objectives in the paramilitary field, and analysis of materiel issues.

*5 shares
reunite* (3) Building Services Branch, Logistics Services Division, Office of Logistics, (BSB/LSD/OL). BSB uses its share of the PPA for administrative and housekeeping supplies which are not carried in Agency inventory. That materiel is for the administrative support of components in the Headquarters area. Such requirements are relatively stable, consequently PPA for this purpose can be programmed in a very orderly manner.

(4) Support Branch, Staff Communications Division, Office of Communications, (SUB/SCD-OC), and

25X1

(5) [] Support Staff, Technical Services

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Division, [] SS/TSD). SUB [] are responsible for developing the

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requirements for Office of Communications and Technical Services Division cognizant materiel, respectively. Those requirements are known to C/SD at the time the suballocation of stock procurement funds is made to him so, after making the appropriate distribution of PPA shares to SUB [] the primary managerial responsibility of C/SD is to monitor the rate of expenditure and insure that items procured are properly within the cognizance of the offices concerned.

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25X1 d. While the requirements for a major portion of stock procurement funds have been developed by cognizant offices, operating components or, in the case of BSB, on the basis of reasonably stable experience factors, the development of funding requirements becomes a more complex exercise. First, a preliminary forecast of PPA requirements is made based upon a review of commitments made during previous years and then categorized by materiel category. Secondly, there are known or forecastable requirements for items in the high dollar category such as the orderly updating of administrative equipment, and the introduction of new items of major equipment (e.g., improved safe file cabinets) or such items that are affected by state of the art. Thirdly, and as a supplement to the issue experience factors, also uses the information developed by OPPB which shows the approved estimated requirements for supplies and equipment by dollar value and materiel category. Because the latter are gross dollar figures, however, it still remains necessary to obtain an identification of the line items within materiel categories in order to make the estimates meaningful.

25X1 e. There are a variety of techniques applied in the conversion of generic requirements into specific line items and quantities. Through the use of computerized property transaction data, it is possible to produce periodic information which reflects meaningful indicators of supply and demand for those items carried in the Agency inventory system. A computer-produced shortage report is received semi-monthly and lists all of those stock items for which the balance on hand has dropped below the established reorder point. This shortage report is used as a replenishment guideline by all of the

inventory management elements. Quantities ordered for replenishment then become subject to Economic Order Quantity tables which consider such things as acquisition lead time, annual dollar value consumption of the item, and unit cost.

f. While the PPA funds suballocated to C/SD are to be used for stock procurement, direct procurements are a concern in the management of Agency inventory. In general, the inventory system will not carry such things as high-cost/limited-use items, or items which are readily available from other Government sources. Such items are usually treated as direct procurements. However, ^{an annual} ~~a monthly~~ computer-produced listing of direct procured cataloged items is received for management review. When it is discovered that there has been a frequent and recurring direct procurement of an item, that item is reviewed as a possible candidate for inclusion in the Agency inventory system. Similar reviews are made of slow-moving and non-moving stock items to be purged from the system in order that the system will be as effective and as responsive as possible. is also the element within SD which monitors and maintains the dollar statistics on the total stock procurement portion of the PPA as funds are committed by the five inventory management elements.

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g. In addition to reaching decisions regarding the suballocation of funds for direct procurement and for stock procurement, OL continually reviews total funds made available in the PPA against amounts required for procurement of materiel. The Agency's funding of the property procurement system is predicated on the assumption that materiel requirements of the operating components equate to obligation authority for such requirements. This is not always the case, however, and OL is obligated to return any PPA funds which are surplus. For example, the Far East

Division's budget in fiscal year 1972 provided approximately [] million in PRA, and in turn PPA, for materiel support to [] A review of the materiel requirements, however, led OL to declare a surplus of [] million in PPA which would not be required for replacement of ordnance and related items issued to Far East Division during the year. These funds were returned to OPPB to be used for other Agency requirements.

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25X1

h. OL also maintains financial records on the use of the PPA. One of those records concerns itself with commitments. A commitment represents a requisition levied on OL which requires procurement action but which has not yet taken the form of a procurement document and a legal obligation. The time lag between receipt of a requisition and the incurring of an obligation varies from the almost immediate issuance of a purchase order on a local vendor, to a period of several weeks for negotiation of a complex production contract. To insure that information regarding commitments and obligations is timely and valid, a follow-up procedure is maintained on commitments outstanding for a period of time. Generally, commitments are allowed to age 3 months before follow-up, so that, beginning in late September and monthly thereafter, follow-up notices are sent to the procurement component concerned with the requisition. In June, however, two follow-up cycles are performed which question the status of all commitments outstanding, regardless of age. Follow-up becomes increasingly critical toward the end of the fiscal year to assure that either a legal obligation has been, or will be, incurred by the end of June, or that the recorded commitment is cancelled, thereby increasing the availability of funds in the PPA.

i. Records are also maintained on obligations. These records show the amounts of purchase orders, contracts, letter orders, work orders, Military Standard Requisitioning and Issue Procedures (MILSTRIP) orders, and Federal Standard Requisitioning and Issue Procedures (FEDSTRIP) orders which evidence the legal obligation of PPA funds.

j. In addition to the normal financial reports made available through the Agency's financial reporting mechanism, OL maintains a supplementary reporting system geared to meet specific control needs. The two primary and scheduled reports are:

(1) Analysis of Property Procurement Allotment by Materiel Group. This report on the status of the PPA is produced monthly for distribution to OPPB, to the Deputy Director for Support (DD/S), and to the appropriate OL components. The report includes the OPPB Planning Figure, which is the OPPB distribution of PPA by materiel category; and the amounts actually committed and obligated by materiel category. The OPPB percentage distribution between direct procurement and stock procurement is based on the average experience of the preceding three fiscal years. The OL percentage distribution of commitments and obligations between direct and stock, on the other hand, are the distributions resulting from actual requisitioning during the current year.

(2) Status of Property Requisitioning Authorization and Amount of Funds Available for Allotment to OL. This monthly report is based upon information provided by OPPB and OF. It is distributed to OPPB, DD/S and to the appropriate OL components. The report shows the PRA issued by OPPB to each Agency operating component and the encumbrances to date of each operating component

against that approved PRA. It also shows the percentage or rate of encumbrance as compared to the expected normal rate of encumbrance for that portion of the current fiscal year completed. Sample copies of each of the two reports are included as Attachments A and B, respectively.

4. CONCLUSIONS

a. The policies and procedures for management and control of PPA are described above as they exist today. There are shortcomings in the total system, but they do not seriously affect the effectiveness and efficiency of our management and control of the PPA. For example, PPA is issued to OL according to materiel category, but the subsequent obligation of that PPA might not follow the same category pattern. Requirements of operating components change as their programs change so that a shift in emphasis from one category of materiel to another is a common occurrence. However, we must, and do, respect and comply to the maximum extent with the budget and materiel requirement estimates of the operating components since those estimates have been reviewed and approved at the appropriate levels of command.

b. While our current methods of management and control of the PPA have proven effective, we do expect that enhanced computer systems will provide tools for more detailed analyses of the property system in the future and, with more frequent updates of data, provide more timely information.

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D.1 DESCRIPTION MPA/PRA

The MPA/PRA system is the method whereby the Agency maintains and controls it's materiel.

The Materiel Procurement Allotment (MPA) is made up of the total Property Requisitioning Authority (PRA) of all the user components, plus the allotments for cognizant offices such as OTS and OSO, plus the allotment for reimbursements for accomodation procurements.

PRA is only an authority to requisition and is not an allotment of funds. It is supported by budgeted funds in the form of MPA.

Each office, at the time of budget preparation, determines their requirements for supplies and equipment. When the appropriation is received, the office of Comptroller issues funds allotments to each office based on their budget requests. Each office, in turn, gives back a portion of their funds and, in exchange, is given PRA. This is like a checking account against which they can draw down property.

The office of the Comptroller issues a Form 716 "Blue Chip" to the office of Logistics in the amount of the sum of all the offices PRA. In effect, the relinquished funds are given to the office of Logistics for the express purpose of procuring materiel for the Agency. This allotment is known as MPA.

Some offices such as OTS and OSO have materiel peculiar to their needs. Because of the technical nature of these offices, they budget for and control the inventory of their materiel. For this reason, they are known as cognizant offices. The office of Comptroller issues a "Blue Chip" to Logistics in the amount of the Cognizant offices allocation. These offices issue their own replenishment requisitions (Form 1245) to restore their inventory levels. OL/B & F uses the Cognizant account allocation in the FAN. i.e. OTS, allocation 61, would be MPA FAN 88-1610.

The Assistant Director for Liaison, OF requests the Office of Comptroller to issue a "Blue Chip" for the estimated receipts for reimbursement for accomodation procurements. When requisitions are processed for Accomodation procurements OL/B & F uses the FAN 88-9999 for MPA. If it is a reimburseable sale to another Government Agency, the FAN 88-9998 is used.

Supply Management Branch (SMB) issues replenishment requisitions to restore inventory levels for allocation under their jurisdiction. When these requisitions are processed against MPA, OL/B & F uses a FAN which embodies the materiel

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category. i.e. replenishment of ordnance materiel would be FAN 88-1001.

None of the above examples, replenishment of stock or cognizant materiel and accomodation procurements affect PRA, they only affect MPA.

PRA is not effected until the materiel is issued to a user component. As mentioned earlier, MPA is the authority by which logistics purchases supplies and equipment. It is an allotment of funds for that purpose. PRA is the authority by which customers can draw down supplies and equipment. It is analagous to a credit card with a dollar limitation.

When a requesting office issues a requisition (Form 88) for supplies and equipment, it is charged to their PRA, using the customer's FAN. i.e. A commo requisition may use the FAN 79-1200. IF the materiel has to be procured, the requisition may go to Procurement Division (PD) to be purchased commercially or to the Interdepartmental Support Branch (IDSB) to be obtained from another government agency. If Procurement Division, a purchase order or contract is prepared. If IDSB, it may result in a FEDSTRIP/MILSTRIP or MIPR. Regardless of the type of purchase instrument, OL/B & F obligates it against MPA, using a FAN that embodies the requesting office. i.e. in the Commo example, a FAN 88-0079 would be used.

In the above example, Commo's PRA was charged for the requisition and the resultant purchase instrument was charged to MPA. Had the materiel been issued from stock rather than purchased, only the PRA would have been affected and the MPA would not have been involved.

Requests for materiel result in encumbrances against PRA and, when issued from stock, the issue clears the encumbrance. The control is the Document Control Number (DCN).

The purchase of materiel results in an obligation against the MPA. When the materiel is paid for, the resultant expense clears the obligation. The control is the Obligation Reference Number (ORN).

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D.2 REQUISITION IN MPA/PRA

1. Requesting Component

- a. Prepares requisition (Form 88)

2. Component B & F

- a. Checks status of PRA. Certifies PRA availability

3. OL/SD/SMB

- a. Reviews requisition. Determines source of materiel.
- b. Enter requisition data into ICS (unless source is SPB). This creates an encumbrance against the PRA. Requesting office FAN is used for PRA.

4. OL/PD or OL/SD/IDSB

- a. IF materiel not available from stock, requisition goes to PD or IDSB to be procured or obtained from other Government Agencies. If procurement, results in purchase order or contract. If IDSB, results in FEDSTRIP/MILSTRIP or MIPR.

5. OL/B & F

- a. Prepares obligation against MPA to obligate the purchase order, contract, FEDSTRIP/MILSTRIP or MIPR. The MPA FAN is used for this obligation. The composition of the MPA FAN is as follows:

i. 88 - the office portion of the FAN is always 88, the last four digits are the requesting office code preceded by two zeroes. i.e. An MPA FAN on a Commo requisition would appear as 88-0079.

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D.3 TECHNICALLY COGNIZANT REPLENISHMENT IN MPA

1. Technically Cognizant Office (OTS, etc.) 25X1
- a. Prepares replenishment requisition (Form 1245)
2. OL/SD/SMB
- a. Processes requisition and determines source of materiel.
3. OL/PD or OL/SD/IDSB
- a. IF PD, results in contract or purchase order. IF IDSB, results in FEDSTRIP/MILSTRIP or MIPR.
4. OL/B & F
- a. Prepares obligation against MPA to obligate the purchase order, contract, FEDSTRIP/MILSTRIP or MIPR.
- i. The FAN is as follows 88 - the office portion is always 88.
- ii. The last four digits reflect the cognizant offices' allocation. i.e. OTS would appear as follow: 88-1610. (OTS is allocation 61).

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D.4 STOCK REPLENISHMENT IN MPA

1. OL/SD/SMB

- a. Prepares replenishment requisition (Form 1245) for allocation under their jurisdiction.

2. OL/PD or OL/SD/IDSB

- a. Determines source of procurement. IF PD, results in Purchase order or Contract. IF IDSB, results in FEDSTRIP/MILSTRIP or MIPR.

3. OL/B & F

- a. Prepares obligation against MPA to obligate the purchase order, contract, FEDSTRIP/MILSTRIP or MIPR.

1. The FAN is as follows: 88 - the office portion is always 88. The last four digits are the materiel category. i.e. ordnance materiel would appear as 88-1001.

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D.5 ACCOMODATION PROCUREMENT IN MPA

1. Requesting Office

- a. Prepares requisition (Form 88) requesting an accomodation Procurement

2. OL/SD/SMB

- a. Reviews requisition to determine source of materiel.
- b. Enters requisition data in ICS. TAC 7U is used to generate entry to GL. 1922. This transaction does not result in an encumbrance to PRA.

3. OL/PD or OL/SD/IDSB

- a. If PD, a contract or purchase order is made. If IDSB, results is FEDSTRIP/MILSTRIP or MIPR.

4. OL/B & F

- a. Prepares obligation against MPA to obligate purchase order, contract, FEDSTRIP/MILSTRIP or MIPR.
 - i. The FAN is as follows: 88 - the office portion is always 88. The last four digits reflect whether it is an accomodation procurement or accomodation sale to OGA. If accomodation procurement, 9999 is used i.e., 88-9999. If accomodation sale, 9998 is used. i.e., 88-9998. Accounts division clears general ledger 1922 and prepares Transfer of Account (TA) upon receipt of a shipping document.
 - ii. Reimburseable Sale OF/ADL bills OGA.

PPA/PRA

- ① Common-use items such as Mini-Kat viewers are controlled by ISAS, Budgeted for by users, and managed and bought by Supply Division.

A single budget responsibility for common use items would have not provided for these items in the normal budget cycle except via the miscellaneous or continuing base route. "O" base budgeting does not recognize this type of thing as immediate requirements. In the "user" budget priority lies for his monies. He gives up a new typewriter for a new viewer.

2. Job R505-116A provides Audit Division all G + 7 transactions^(NX) direct or stock with exceptions of Ordnance items when X and NX are given - List by Station or base for a particular period. If SD does not change data input, direct funding will have no impact on this requirements.

1. Comment on items in OO alloc used by Comm.
2. To what extent does SMB allocate material procured w/SMB stock money to allocations other than OO - which ones & to what extent

Page 3 Next to last par -
If PRA goes out what records would be necessary? "What data" would be automated in the same way as obligation data.

Modified PPAP/PRA - distinction PRA/FUNDS
Direct FUNDING distinction between
Office w/Budget req.

(Common)
Suppose they want an item, OC doesn't
stock - they must then know
whether to cite "Money or no money
at all"

How can a standard price policy be
administered with out a small
fudge factor - All std pricing
procedures must have. - Material
cannot be stocked w/o standard
price - It doesn't matter whether
its OC Managed OC Managed or
anybody else. Pricing of Inventory
never was seriously considered in

in direct funding — obligations
(Commitments on OS) should be
at Std price — as a matter of
fact, when we go MRS the
Time frame expense will
demand —

Page 4 of Helen's report STAT
Comments - Modified PPA/PRA — agree
directs/stock must be reflected some
or later in Component B+F records — It
is equally true in Direct funding
only more cumbersome — Customer
must know who manages and
budgets for what he wants or
does he budget himself. There
would be no flexibility to put
an item in stock or remove it,

1. Without very definitive information (item-wise) how will each element know what they must budget for (directs) and what the respective item managers will budget for (stock)
2. Re 1D(3)(a) DC could budget + manage nearly all items with most items mgs listed in 3B above. Merely Tech Coy.